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UNCLAS SECTION 01 OF 02 LIMA 005073

SIPDIS

SENSITIVE

DEPT FOR WHA/AND, WHA/CEN, WHA/EPSC, EB/CIP  
COMMERCE FOR 4331/MAC/WH/MCAMERON AND KFERGUSON  
USTR FOR KSCHAGRIN/JMCHALE  
FCC INTERNATIONAL BUREAU FOR ETALAGA

E.O. 12958: N/A

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SUBJECT: TELECOMS REGULATOR PUBLISHES IMPROVED MOBILE  
TERMINATION RATE

REF: A) LIMA 4226 B) LIMA 4108 C) LIMA 2509 and previous

1. (SBU) Summary. The Peruvian telecommunications regulator, OSIPTEL, published its new mobile termination rate on November 24. The new rate is based on cost factors including the value of a company's network investment and the spectrum value. Under the new plan, OSIPTEL will lower the mobile termination rate by 25 percent over the next three years, beginning in January 2006. By 2009, the new mobile termination rate will be set at between \$0.1056-\$0.0922, 54 percent lower than current mobile termination rates. The new rate will be finalized on December 13; until then, companies can comment to OSIPTEL on the new rate. End Summary.

#### New Mobile Termination Rate

2. (U) On November 24, OSIPTEL published its new mobile termination rate, incorporating suggestions and public comments (Ref A). The new mobile termination rates are asymmetrical, with different rates for each operator. According to Edwin San Roman, General Manager of OSIPTEL, the new rate is based on costs -- mobile traffic, and number of antenna stations -- and, unlike the model published in July, does not include externalities or subsidies.

3. (U) Under the model, the rate for the remainder of 2005 for all companies will be \$0.2053, which was established in June as a temporary rate (Ref C). Beginning on January 1, 2006, OSIPTEL will implement the new rate, between \$0.1804-\$0.1770, which will decrease by 25 percent annually over a three-year period. By January 1, 2009, the mobile termination rates will average \$.095 -- a 54 percent reduction. (Note: All costs are in dollars and do not include Peru's 19 percent value added tax. End Note.) The new mobile termination rate applies to mobile-to-mobile calls.

Company	Original Rate	Temp Rate Jun 2005	2006	2007	2008	2009
Nextel	\$.250	\$.2053	\$.1772	\$.1491	\$.1210	\$.0929
TdP	\$.207	\$.2053	\$.1770	\$.1487	\$.1204	\$.0922
America Movil/TIM	\$.250	\$.2053	\$.1804	\$.1555	\$.1305	\$.1056

Source: OSIPTEL

6. (U) Under Peruvian regulations, the new mobile termination rate will not become final until December 13. OSIPTEL can entertain comments from companies on the rate and make changes.

#### Positive Development for U.S. Competitor

7. (SBU) We spoke to Ernesto Montagne, Regulatory Counsel at Nextel Peru, to hear Nextel's views on the new model. According to Montagne, Nextel Peru believes that the new rate is a positive development from the previous model. First, the rate is cost oriented, unlike the July model that included externalities and subsidies. Second, the new rate encourages competition in the market by allowing the smaller companies to charge a higher mobile termination rate. In the previous model, Telefonica (TdP) was able to charge a higher mobile termination rate, enabling it to recover its investment costs. Nextel previously alleged that OSIPTEL established a model that benefited the dominant carrier, which undermined the idea of regulation (ref B). OSIPTEL's new rate allows Nextel and America Movil, which are smaller but expanding companies, to charge a higher fee for mobile termination than Telefonica, fostering competition with the dominant provider and enabling the smaller companies to earn higher profits. Third, by 2009, Peru will have some of the most competitive mobile termination rates in the region.

18. (SBU) Montagne underscored that Nextel is not 100 percent happy with the new rate. While OSIPTEL based the new rate on cost analysis, it only reflects 2004 costs; the 2009 rate will not reflect current costs but rather costs from five years earlier. Because the final rate will not incorporate current costs, Nextel argues that OSIPTEL is still noncompliant with its own regulations. Additionally, Nextel is still unsure why OSIPTEL needs three years to reduce the mobile termination rate instead of implementing a cost-based rate immediately.

Comment: Rival Telefonica Livid

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19. (SBU) The new mobile termination rate is a clear departure from OSIPTEL's previous model -- an indication that OSIPTEL not only heard the public comments against its model but incorporated several public suggestions. The new rate, when finally implemented, will encourage competition in the market. Telefonica, Peru's dominant provider with more than 65 percent of the market, has publicly stated its opposition to the rate and will no doubt attempt to reverse OSIPTEL's decision. One popular television program over the weekend ran a story about how U.S. Embassy presence at the September OSIPTEL public hearing and a recent Trade Development Agency (TDA) grant placed undue pressure on OSIPTEL to favor Nextel. We remain confident that San Roman will not bow to Telefonica's antics and will meet with him next week to discuss the new rate.

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